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MUTUAL DEPENDENCY OF MONETARY AND FISCAL MEASURES: CAUSES AND IMPLICATIONS (A STUDY OF POST REFORM PERIOD)

ANITA TYAGI

Assistant Professor, Department of Humanities (Economics), Faculty of Engineering & Technology, MJP Rohilkhand University, Bareilly

ABSTRACT

Fiscal and monetary policies are two important tools, which have been used by the state to achieve its macroeconomic objectives. Since independence, fiscal policy has been used as major macro-economic policy, and monetary policy has worked as the subsidiary of fiscal policy. In the financial sector, monetary policy has gained the autonomous position, from the subsidiary status of the pre - reform period. Now the monetary policy is being considered as an affective macro-economic policy and in certain cases, more effective than fiscal policy. This study explains how is monetary and fiscal policy, interacting to each other to achieve the common macro-economic objective of high growth, moderate inflation, low unemployment and high level of equity in society? In which way monetary and fiscal policies are interdependent to each other? Which is the macro-economic objectives, where monetary policy could respond better, and where fiscal measures may be more effective? And at the last, how is the relative position of monetary and fiscal policy changing in the context of increasing market oriented policies?

KEYWORDS: Fiscal Policy, Monetary Policy, Macroeconomic & Inflation

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INTRODUCTION

India is a developing country, with over 1 billion population and a very rich availability of mineral resources. 40 per cent of its land is plain with easily access of rivers. India has one of the best climates of the world. In spite of all these advantages, India is facing a number of problems, growth of agriculture is very low on which, more than 70 percent population is dependent. Population, which is the supplier of human resource in the economy, has become one of the biggest problems due to the lack of proper human resource management (HRM). Inequality in different aspects (regional sectoral, individual), is increasing (particularly in the post reform period) in spite of continuous stride for inclusive growth.

Government of India (GOI) has made continuous stride, to overcome with all these problems, by different macro-economic policies. Since independence, Fiscal policy has been used as major macro-economic policy, and monetary policy has worked as subsidiary of fiscal policy. It was particularly true in the period of post independent to pre reform, when the government has made huge expenditure and RBI has arranged the fund for this huge expenditure. Though in this period country has made some fundamental achievements, like self-dependence in agricultural products and heavy industry, the heavy extension of formal credit in rural areas, initially by co-operative movement and later on by nationalization of commercial banks, development of a vibrant private sector, but still the goal of inclusion and sustained high growth was far from realization. Not only this, but our economy

was also beset with a number of mal practices and anomalies, which are the common characteristics of a command economy. These factors have ultimately pushed the economy into crisis, in the year1990.

Since 1991, we have made continuous strides to reform the economy from government dominated, to a market oriented economy, so called as new economic policies. This was the policy of structural reform that consists of all the sectors and all kinds of policies. In case of monetary policy, efforts have also been made, to liberalize the monetary system, from a control to market driven system. CRR (Cash Reserve Ratio) and SLR (Statutory Liquidity Ratio) has been drastically reduced, administered interest rate has been liberalized, by leaving the interest rate on commercial decision of banks, and policy of priority sector, lending is also rationalized. The attempt was, to shift from direct interventions in the financial system of indirect intervention. For this government has made continuous effort to develop the market of government securities. Several new securities with distinct objectives were issued, which has provided an alternative option for government to mobilize the resources and intervene into the economy. At the same time, ad hock Treasury bill of 91 days, was banned in the limit, by advance and mean adjustment (AMA) contract, between RBI and the government of India. Ad hock 91 day Treasury bill was the biggest source of monetization, which was creating imbalances and instability into the system. In this context the Open Market operation (OMO), has emerged as the best monetary tool to intervene in the economy, and to make required adjustments. In this whole process of financial sector reform, monetary policy has gained the autonomous position from the subsidiary status, of the pre - reform period. Now the monetary policy is being considered as an effective macro-economic policy and in certain cases more effective than fiscal policy.

In this context, it is interesting to study how our monetary and Fiscal policy, interacting with each other to achieve the common macro-economic objective of high growth, moderate inflation, low unemployment and high level of equity in society? In which way monetary and Fiscal policies are interdependent to each other to achieve above common objectives? Which is the macro-economic objectives where monetary policy could respond better, and which are, where Fiscal measures may be more effective? And at the last, how is the relative position of monetary and Fiscal policy changing in the context of increasing market oriented policies?

Hypothesis

In respect of above research questions, the following hypothesis is considered, which will be cross checked:

- There is interdependence in fiscal and monetary measures to achieve common macro-economic objectives.
- Monetary policy is more effective in solving the problem of price rise while fiscal policy is relatively better in achieving the objective of high growth with equity.
- In the processes of privatization, liberalization and globalization, monetary policy has emerged as more effective tool rather fiscal policy in the post reform period.

The rest of the paper is organized into three sections. In the second section, interdependence of fiscal and monetary measures will be discussed. It will include the analysis of public debt management, exchange rate management, and the tradeoff between growth and inflation. It also discusses the relative effectiveness of monetary and fiscal policies, for achieving macro-economic objectives. The third section will include the implications of policy experiences of the last twenty years, by which changing importance of fiscal and monetary policies to control and regulate the economy could be, understand. The last and fourth section will be the findings and conclusion of the paper.

Interaction and Interdependence of Fiscal and Monetary Policy to Achieve Macroeconomic Objectives

In theory, it is very well established, particularly by neoclassical economist, through IS-LM model, that money and Fiscal policies have very close relation. Same objective, in terms of growth rate or price level or employment or any other macro objective could be achieved either through monetary or fiscal policy. But they have their own merits and demerits. While monetary policy has less internal barrier to change the policy regime in changed context, it takes time in giving the results. Vice Versa, in case of Fiscal policy it is very difficult to change the current policy regime (High internal barrier), but it gives result soon. The art of the policy making is not in using either Fiscal or monetary policy efficiently, but in how are both used to counter the demerits of each other.

Given the above theoretical understanding it will be very interesting to analyze, how well this has been done in India in the post reform period, when monetary policy have got the autonomous status. The initial years of the decade of 90's were the crisis years. Foreign exchange (Forex) crisis of 1991 was started because of Fiscal crisis, as in Financial year of 1986-87 the Fiscal deficit reached to unsustainable levels of 9.78% (combined C.G. and S.G.) of GDP, which was continued to next years to close to 9 per cent. It was 9.41 percent in the crisis year of 1990-91. Which kind of fiscal and monetary adjustment being done to bring out the economy from the crisis, and for sustaining the high growth in the next years? For knowing this we have to look into the kind of Fiscal and monetary measures being taken in these years.

Table 1: Select Fiscal Indicators of the Central Government (% of GDP)

Year	RR	CR	RE	CE	RD	FD	PD	FD*
1990-91	9.65	6.58	12.91	5.58	3.26	7.84	-0.52	9.41
1991-92	10.09	5.88	12.57	4.45	2.48	5.55	-1.58	7.00
1992-93	9.85	4.81	12.32	3.98	2.47	5.34	-1.66	6.96
1993-94	8.71	6.40	12.49	3.89	3.78	6.96	-0.46	8.19
1994-95	8.97	6.76	12.02	3.80	3.05	5.68	-1.28	7.05
1995-96	9.24	4.89	11.74	3.22	2.49	5.05	-1.70	6.52
1996-97	9.16	4.46	11.53	3.05	2.37	4.84	-1.95	6.33
1997-98	8.77	6.49	11.81	3.39	3.04	5.82	-1.26	7.25
1998-99	8.54	7.43	12.36	3.59	3.82	6.47	-0.62	8.97
1999-2000	9.30	5.93	12.76	2.51	3.46	5.36	-1.16	9.47
2000-01	9.16	6.38	13.22	2.27	4.05	5.65	-0.67	9.51
2001-02	8.83	7.13	13.23	2.67	4.40	6.19	-0.32	9.94
2002-03	9.40	7.35	13.80	3.04	4.40	5.91	-0.4	9.57
2003-04	9.58	7.67	13.14	3.96	3.57	4.48	-0.94	8.51
2004-05	9.72	6.36	12.20	3.62	2.49	3.99	-1.54	7.45
2005-06	9.68	5.01	12.25	1.85	2.57	4.08	-1.12	6.68
2006-07	10.52	3.50	12.46	1.67	1.94	3.45	-1.70	5.58
2007-08	11.47	3.62	12.58	2.50	1.11	2.69	-2.51	5.25
2008-09	10.56	6.37	15.10	1.83	4.53	6.14	0.91	4.59
2009-10	10.49	6.94	15.32	2.11	4.83	6.85	0.98	

Source: Ministry of Finance (2009 - 10)
RR: Revenue Receipts, CR: Capital Receipts, RE: Revenue Expenditure

CE: Capital Expenditure, RD: Revenue Deficit, FD: Fiscal Deficit

PD: Primary Deficit, FD*: Combined Fiscal deficit (CG+SG)

Fiscal Policy in the Post Reform Period

Designing of Fiscal policy in the post reform period was motivated by the fiscal responsibility and fiscal consolidation. It is being acknowledged by the policy makers that fiscal consolidation is an essential condition for

accelerating and sustaining growth. From Table 1, looking the trend in revenue and expenditure of government, which is reflected in different concepts of deficits, the time period of 1990-91 to 2007-08, could be broadly categorized into three sub periods, i.e. 1990-91 to 1996-97, 1997-98 to 2002-03, and 2003-04 to 2007-08. Financial year of 2008-09 and 2009-10 may be considered as special year because in these years economy has faced the problem of the recession. In the period of 1990-91 to 1996-97, government proceeded to path of fiscal consolidation. A fiscal deficit of central government has reduced from 7.84% of GDP to 4.84 percent. This was done by partly reducing the revenue expenditure and partly by cut in capital expenditure. Though since 1991, the Government has started re-forming the tax policy on the basis of recommendation of Charlie Committee, it has not resulted in revenue form, as Revenue receipts remain almost constant during this period at nearly 9 percent of GDP. Processes of Fiscal consolidation weakened in the next period, i.e. 1997-98 to 2002-03. The fiscal deficit has crept back to nearly 6.0 percent in 2002-03 from the 4.84 percent in 1996-97. Even more disturbing cause behind this increase was that an increase in the fiscal deficit was totally due to the increase in revenue expenditure, as the capital expenditure remains constant during this period at 3.05 per cent, while revenue expenditure has increased from 11.8 percent to 13.8 percent. Increase in revenue expenditure of 2 percent of GDP could be contributed to increase in interest payment liabilities and subsidies. Again in revenue side there was not any significant improvement and it remains almost the same level of last period.

Increasing share of revenue deficit in Fiscal deficit, which increased from 45 per cent in 1990-91 to over 71 per cent in 2001-02, has badly affected by the economy in many ways and ultimately increasing the fiscal deficit. Characteristics of debt trap were prevailing in the economy. For breaking the vicious circle of debt trap and shaping the economy from again crisis like 1991, government has introduced the FRBM (Fiscal Responsibility and Budgetary Management) act in the year 2003. Under the FRBM act it was compulsory for central and all state governments to reduce their fiscal deficit to the level of 3% of GDP and revenue deficit to zero percent level up to financial year of 2008-09. FRBM act has worked a lot, and the fiscal deficit has reduced to below 3 percent in financial year 2007-08. In 2007-08 the fiscal deficit of the central government was 2.69 percent of GDP. Though the target was achieved within the stipulated time in quantities, terms (at least in the case of fiscal deficit), but it was at the cost of capital expenditure. Capital expenditure has reduced sharply from 3.96% in 2003-04 to 1.67% in 2006-07, while the revenue deficit is well above to given target of zero level. It was 1.11 percent of GDP in 2007-08. A quantitative adjustment in the cost of capital expenditure will have negative implications in the long run. Government should achieve the target in the way as it has been prescribed, i.e. by dismantling the revenue deficit.

Though the Financial years 2008-09 and 2009-10 were special years in the sense that the economy was under recession, and government has given the stimulus packages to different sectors in different forms, which has increased its revenue deficit to 4.53 percent in 2008-09, and further increased to 4.83 percent in 2009-10, which has contributed to increasing the fiscal deficit to unsustainable level of 6.85. But now when the economy is revived and nearly out of recession, the government needs to stick on FRBM act and should come to track of fiscal consolidation.

In this given background of fiscal policy in the post reform period, let us now analyze its impact on the economy and how monetary measures have coordinated with fiscal policy. Analysis of monetary measures and performance of the economy will be in same corresponding periods as it being discussed in the case of fiscal policy.

Monetary Policy and Performance of Economy in the Post Reform Period

Scenario of monetary policy has drastically changed in the post reform period. In the light of financial

liberalization, the RBI had to develop an array of monetary policy instruments, which could effectively modulate monetary conditions in alignment with the rejuvenated process of price discovery. Besides, shift in monetary policy transmission channels necessitated policy impulses which would travel through both quantum and rate channels. Finally, the episodes of volatility in the foreign exchange markets emphasized the need for shift policy reactions, balancing the domestic and external sources of monetization in order to maintain orderly conditions in financial markets (Jadhav Narendra, 2006). Several empirical studies (Ray, Saggar and Joshi (1998), Jadhav (2006), Ray and Chatterjee (2002), Pethe and Karnik (2002), have shown that Reserve Bank of India (RBI) has successfully completed these challenging tasks. Now RBI has a set of instruments to intervene into the economy, either through liquidity adjustment or through rate adjustment. Now bank rate and repo rate (reverse repo) are working as a price signal for commercial banks as well as for the whole financial system. Market of government securities has broadened and many new securities being added, which are providing a policy option for RBI. It could have possibly because of market based pricing of government securities. Now all the government securities are being issued by the auction system, which is more advanced than before. In this context OMO (Open Market operations) and LAF (Liquidity Adjustment Facility) have emerged as most effective instruments to intervene and manage the economy.

Now, let us see how RBI has used these instruments, to affect the quantum and rate, channels, which has ultimately transmitted to the real economy, in the post reform period.

Table 2: Major Monetary Policy Measures

Year	SLR	CRR	Bank Rate	Repo Rate	Reverse Repo Rate
1991	38.5	15	11.5(2)	-	
1992	38.5	15(3)	12.0	-	
1993	38.0(6)	14.25(2)	12.0	-	
1994	33.0(4)	14.75(3)	12.0	-	
1995	31	14.25(2)	12.0	-	
1996	31	12.20(5)	12.0	-	
1997	25	9.95(5)	10.0(3)	-	
1998	25	10.40(4)	10.1(4)	-	
1999	25	9.70(4)	8.0	-	
2000	25	8.3(4)	7.5(2)	11.6(20)	10.83(24)
2001	25	7.0(5)	7.0(3)	8.75(3)	6.93(4)
2002	25	4.87(2)	6.25	7.7(2)	5.75(2)
2003	25	4.87(2)	6.0	7.05(2)	4.75(3)
2004	25	4.87(2)	-	6.0	4.75
2005	25	5.0	-	6.25	5.12(2)
2006	25	5.25		6.50	5.50

Source: Handbook of Monetary Statistics of India (2006), RBI
Note: Figures in bracket shows the frequency of changes in policy rates in that particular year.

Table 3: Changes in Selected Macro – Economic Variables

Year	ER(us $)	Inflation(WPI)	Money Supply(M3)	Growth rate (GNP)	Interest rate (PLR)
1990-91	17.9		15.1	5.0	16
1991-92	24.47		19.3	1.4	19
1992-93	30.64		14.8	5.4	17
1993-94	31.36		18.4	5.9	14
1994-95	31.39	12.6	22.4	6.5	15
1995-96	33.44	8.0	13.6	7.3	16.5
1996-97	35.49	4.6	16.2	8.1	14.75
1997-98	37.16	4.4	18.0	4.5	14.0

1998-99	42.07	5.9	19.4	6.7	12.5
1999-00	43.33	3.3	14.6	6.4	12.25
2000-01	45.68	7.2	16.8	4.0	11.5
2001-02	47.69	3.6	14.1	6.0	11.5
2002-03	48.39	3.4	14.7	4.0	11.12
2003-04	45.95	5.5	16.7	8.5	10.6
2004-05	44.93	6.5	12.0	7.5	10.5
2005-06	44.27	4.4	16.9	9.6	10.5
2006-07	45.28	5.4	21.7	9.8	12.37
2007-08	40.24	4.7	21.4	9.3	12.5
2008-09	45.91	8.3	18.6	6.7	12.0

Source: Handbook of Statistics on Indian Economy (2009), RBI

Analysis of monetary policy and its impact on macro economy will be done in context of fiscal policy, in the same respective time period in which fiscal policy has been discussed. In the period of 1990-91to 1996-97, as we have seen above, Fiscal policy was contractionary, Government has implemented the policy of fiscal prudence. In the same period of time, RBI has adopted an expansionary monetary policy. SLR has drastically been reduced from 38.5 per cent in 1991 to 25 percent in 1997. CRR (Cash Reserve Ratio) has also declined gradually, from 15 percent in 1991 to 14 percent in 1995 and then 9.95 percent in 1997. Bank rate remains almost constant at 12.00 percent level in over the period of time. Changes in monetary policy were very much responsive to Chakravarty committee and Narasimham committee reports, in which they have recommended to shift indirect intervention policy from direct intervention in the financial system. Another important feature of this period monetary policy, RBI has used CRR effectively for managing the liquidity and interest rate in the short run. RBI had adjusted 3 to 5 times to CRR in each year to manage the short run problems. In this period we see co-ordinations between monetary and fiscal policy, which has given good results in terms of macro-economic objective. The growth rate of economy drastically recovered from very low level growth of 1.4 percent in the crisis year of 1991 to 8.1 per cent in 1996-97. High growth momentum and active adjustment in monetary policy has also helped in cooling down the inflation. Inflation was above 12 percent in the initial years of the period and which reduced to below 5 percent in the year of 1996 – 97. But the principle of 'impossible trinity' seems true in this period, when success in front of inflation and growth of the economy, being achieved after compromising at external front. The Indian rupee was devaluated in the year of 1991-92, and depreciated even thereafter. Exchange rate of the Indian rupee in US $ terms was Rs. 17.9/1$ in 1991 depreciated to Rs. 35.49/$ in 1996-97. The prime lending rate of major commercial banks has hovered around 15 to 16 percent in this period.

Next period, 1997-98 to 2002-03, was a transition period in monetary policy point of view, when RBI has shifted from using direct tools to indirect tools. At the end of the period, repo and reverse repo rates have emerged as actively used tools of RBI. If we see the fiscal policy for this period then we find that government has loosed the path of fiscal consolidate and government expenditure has increased because of the sharp increase in revenue expenditure. In nut shall the Fiscal policy of this period was an expansionary policy. The monetary policy of RBI also seems expansionary, as CRR has reduced sharply from nearly 10 per cent to less than 5 percent. It was also supported by a sharp reduction in Bank rate, from 10 per cent in 1997 to nearly 6 percent in 2002-03. Expansionary monetary and fiscal policy has put the pressure on inflationary front. RBI has used all possible tools to manage the inflation and inflationary expectations, ranging traditional tools (CRR and BR) to newly invented repo and reverse repo rate. RBI has adjusted 4 to 5 times to CRR, 2 to 3 times BR, very frequently (particularly in the year of 2000) to repo and reverse repo rates in each year of this period. The Active deliberation of monetary policy has saved the economy at least in inflationary front. Growth of money supply (M_3)

managed to increase at a moderate rate of 14 to 16 percent. Inflation remains below 5 percent, except for the exception of one or two years, when increase prices were meager above 5 percent. But active adjustment seems to distorted growth momentum which has declined to 4.0 per cent level in 2002-03. In the external front also, rupee continues to depreciate in dollar ($) terms in this period. Exchange rate (ER) has increased from Rs 37/1$ to Rs. 48/1$ in this period. The experience of this period shows that lack of coordination in Fiscal and monetary policy has a bad impact on the economy. However, active deliberation of monetary policy has saved the economy from inflationary problem.

A period of 2003-04 to 2007-08, was a unique period in many senses. This was a period when the economy has registered a very high and consistent growth, inflation was under control, and Indian rupee shows a consistent performance in the forex market. To some extent Indian Rupee has appreciated, which was well managed by RBI. It seems that the Indian economy had overruled the 'Impossible Trinity' approach in this period. It was a period of win-win in all Fronts. In this context, it will be very relevant for policy making to analyze which kinds of policies were implemented by Government and RBI in this period. As mentioned in Section 2.1, the government has bounced back to the policy of fiscal prudence, due to the introduction of FRBM act. Government expenditure has reduced sharply, though at the cost of cut in capital expenditure. In this period RBI has implemented a very prudent monetary policy only to fine tune to the market forces. In initial years, RBI has made meager cuts in policy rates, particularly in repo and reverse repo, to inject the liquidity into the economy. In later years, an adjustment is being made in upper sides to control the booming economy and inflationary expectations. The period shows a very efficient management of Macro monetary variables. On one side the price signal of RBI has worked well, as interest rate (PLR) move with policy rates and on the other in spite of the sharp increase in money supply (M_3), the price rise was well within the control. The growth of this period was particularly contributed by the private sector, while RBI has provided external policy support by its efficient monetary policy. The role of fiscal policy was very limited, but the policy was in the right direction.

Year of 2008 and 2009 are not comparable with the rest of years of the third time period, as in these years, our economy was in recession, due to the world great depression. Therefore, these two years need separate analysis and could not be mixed with third time period, i.e., 2003-04 to 2007-08. Fiscal policy, monetary policy, and their interaction in these two years in context of pulling out the economy from recession are explained below.

As we know government has started giving special stimulus packages in different forms, since starting of year 2008. National Rural Employment Guarantee Act (NREGA), Loan is woven of farmers, implementation of 6^{th} pay commission's recommendation, cut in tax rate of all major indirect taxes, and special packages and tax holidays provided to major export-based industries, all have been implemented in these two years. Therefore, expenditure of the central government has suddenly prompted up, though the increase in expenditure could not be solely contributed to the recession. This period also includes the election year, and government has increased huge amount on a popular scheme like the NREGA, to attract voters.

Table 4: Major Monetary Policy Measures In Year 2008-09

Item	Apr., 08	May, 08	June, 08	July, 08	Aug. 08	Sept, 08	Oct. 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09
a. CRR	7.5	8.25	8.25	8.75	8.75	9.00	6.00	5.50	5.50	5.00	5.00	5.00
b. BR	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00

c. PLR	12.25-12.75	12.25-12.75	12.50-2.75	12.75-13.25	13.25-14.00	13.75-14.00	13.75-14.0	13.00-13.50	12.50-13.25	12.00-12.50	11.5-12.50	11.50-12.50
d. DR	8.25-9.00	8.25-8.75	8.25-9.00	8.75-9.50	8.75-10.0	8.75-10.00	8.75-10.50	8.50-10.50	8.50-10.00	8.00-9.00	7.75-9.00	7.75-8.75
e. CMR i) H ii)L	7.50 2.00	8.25 6.00	10.25 6.50	10.25 5.80	10.04 4.55	15.25 6.35	21.00 4.50	7.75 4.00	6.60 4.00	4.50 2.00	4.50 2.00	5.00 2.25

Source: RBI report on trend and progress of banking in India (2009)
CRR: Cash Reserve Ratio, BR: Bank Rate, PLR: Prime Lending Rate

DR: Deposit rate, CMR: Call Money Rate, H: High, L: Low

Whatsoever may the reason be, but government's revenue expenditure has increased sharply, from 12.00 percent of GDP in 2007-08 to 15.00 percent in 2008-09, which has ultimately contributed in increasing the revenue deficit from 1.11 percent of GDP to 4.53 percent in same respective time periods. A fiscal deficit of central government has increased from 2.69 per cent to 6.14 per cent of G.D.P.

Expansionary fiscal policy of the government, which has contributed in increasing the price level along with the supply side constraint of necessary goods, has prompted RBI to implement a strict monetary policy to control inflation and inflationary expectations. All the major policy rates, particularly CRR, repo and reverse repo rate, have been adjusted to upward in the initial months of financial year 2008-09, which has pushed the prime lending rate (PLR) and call Money rate (CMR) to increase. As from the table 4, it is clear that CRR has increased from 7.50 per cent in April 2008 to 9.00 per cent in Sept. 2008. Similar kind of upward shift could be seen in case of PLR (Prime lending rates) and call money rates. PLR and CMR have increased from 12.25 to 14.00 percent and 7.5 percent to 21.0 percent, respectively in the same corresponding months. This kind of contractionary monetary policy has helped in tackling demand factor, contributing in inflation. But in later months when it becomes clear that the economy is in a recession and need monetary support to spurt the growth rate of the economy, which has come down from 9.3 per cent to 6.7 per cent in year 2008-09, RBI has changed its monetary policy from contractionary to expansionary. All the major policy rates were brought down in next month's by RBI. CRR has been reduced to 5.00 per cent from 9.00 per cent. PLR, DR, and CMR have also declined, which has helped economy to come out of recession. Here we can see the clear distinction in priority of RBI. In the year of 2008, RBI was totally concerned to tackle the problem of price rise, while in the year of 2009 RBI's priority was to help in spurts the growth rate of economic. It has helped the economy in both ways, and now Indian economy is almost out of recession. This period shows that both the policies were very active and well coordinated to solve the problems of the economy.

Implications of Policy Experience in the Post Reform Period

Experiences of the post reform period, which is sub-divided into four parts, vary from period to period. In the first period, i.e., 1990-91 to 1996-97, we see an interdependence and coordination between fiscal policy and monetary policy, which is ultimately reflected in the form of better performance in terms of macro-economic objectives, at least at internal front. Growth of the economy increased consistently, inflation had declined sharply and came under comfortable level. The period started with crisis year and a well coordinated policy response had brought out the economy from crisis, though we have to compromise at external front. Reducing government interventions and giving more roles to the private sector has

helped in the growth of the economy while active monetary policy contributed in controlling prices.

In the second time period (1997-98 to 2002-03), we see a lack of coordination in fiscal and monetary policy, both the policies were expansionary. Monetary policy was due to be expansionary as RBI has to bring down all the major policy rates as per the recommendations of various committees, but expansionary fiscal policy shows a bad fiscal management. Growth of the economy had slowed down, but active monetary policy, with the help of newly introduced OMO and traditionally used CRR and BR, had managed to keep inflation down. The success of, at least in front of inflation could be credited on account of monetary policy.

Policy experience of the post FRBM act is very meaningful in many senses. This was a period when we saw a very good tuning between fiscal and monetary policy. Government back to the path of fiscal consolidation and monetary policy has played a very active role. Growth, led by the private sector was monitored by the monetary policy. Experience shows that now Indian private sector is in a position to lead economy at the vibrant rate of growth, role of government is only to provide enabling environment. Monitoring and regulation of the economy could be done comparatively better way of monetary policy, as it creates less hindrance and provide indirect incentive to move in the right path to the private sector. But government has to play a significant role in periods of recession and depression, as it is rightly being done in recent problem of recession.

Findings

The study brings the following important findings:

- Policy experience of the post reform period shows that there is interdependence between monetary policy and fiscal policy. Coordination between the two provides better results in terms of macro-economic objectives.
- The experience of the last twenty years shows that monetary policy is highly useful in solving the problem of inflation, which is demand driven, while supply side constraint could be solved by the coordinated efforts of monetary and fiscal policy.
- Growth of the economy is very much decided by performance of the private sector. The role of fiscal policy is in providing enabling environment, while the job of regulation and monitoring through policy incentive should be left to monetary policy.
- Study agrees with the third hypothesis, which talks about the increasing role of monetary policy with the processes of privatization, liberalization and globalization.

CONCLUSIONS

Since independence, fiscal policy is being used as the dominant policy in Indian economy, and monetary has played a supportive role. Lacking the need of economy in that particular time, it was justified in certain extent. But the experience of the post reform period shows that there is equal importance of both the policies and an efficient coordination is required to achieve macro-economic objectives of high employment, moderate inflation and high level of sustainable growth. It is to suggest that as monetary policy is more effective in solving the problem of inflation, policy makers should more rely on it and Fiscal policy needs to work on providing the enabling environment to private sector in affective coordination with monetary policy. In the present environment of open economy, the exchange rate is playing a critical role therefore management of exchange rate should be in priority of monetary policy. So far as equity is concerned,

because it is partially decided by high sustainable growth and partially by inflation, so it should be achieved in co-ordination of both the policies. The future of the Indian economy will depend on the efficient coordination between monetary and fiscal policy.

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